



STUDY ON NPAs IN SBI WITH REFERENCE TO COIMBATORE

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ABSTRACT

A Non-Performing Asset means an asset which does not yield any income / interest / installment on principal for a period of two quarters. Normally Non-Performing Asset is an amount under any of the credit facilities Viz., Term loans, overdraft, cash credit Accounts, bills purchased and discounted and other accounts in respect of which interest/installment of principle is an arrears for two quarters during the accounting year. NPAs are always a serious case of concern to the banks. The measure of non-performing assets (NPAs) helps us to assess the efficiency in allocation of resources made by banks to productive sectors. The problem of NPAs arise either due to bad management by banks or due to external factors like unanticipated shocks and business cycle. The decline in NPAs is more evidenced across bank groups especially since 2003. This reflects on the positive impact of the measures taken by the Reserve Bank towards NPA reduction and specifically due to the enactment of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, ensuring speedier recovery without intervention of courts or tribunal.

Keywords :

INTRODUCTION

Banking sector in India is currently passing through an exciting and challenging Phase. The reform measures have brought about sweeping changes in this vital sector of the country's economy. The report provides an analysis of the banking sector in India. In the 1970s and 1980s the Indian banking industry was marked by a high degree of regulation. Banking sector reforms were initiated in 1991 with the following objectives: improving the macro-economic policy framework within which banks operate, introducing prudent practices; improving the financial health and competitive condition of banks; building financial infrastructure relating to supervision, audit standards and legal framework; and strengthening the level of managerial competence and quality of personnel.

In the 1970s and 1980s the banking industry was marked by a high degree of regulation. The banks functioned in a heavily regulated and controlled environment, with an administered interest rate structure, quantitative restrictions on credit flows, high reserve requirements, and pre-emption of a significant proportion of lendable resources towards the "priority" sector etc.

In 1991, the Government of India (GOI) established a nine-member Committee on Financial Systems, under the chairmanship of Mr. N. Narasimham to evaluate the systemic banking problems. The Narasimham Committee report published towards the end of 1991, containing far-reaching recommendations for the banking sector. This report formed the basis for the sector's reforms, which were undertaken in parallel with the overall economic reforms of the 1990s. The salient features of these reforms were:

- ✓ Introduction of stricter income recognition and asset classification norms.
- ✓ Introduction of higher capital adequacy requirements.
- ✓ Introduction of higher disclosure standards in financial reporting.
- ✓ Introduction of phased de-regulation of interest rates.
- ✓ Lowering of Statutory Liquidity Ratio (SLR) and Credit Reserve Ratio (CRR) requirements.

NON-PERFORMING ASSETS OF THE BANKING SECTOR

A Non-Performing Asset means an asset which does not yield any income / interest / installment on principal for a period of two quarters. Normally Non-Performing Asset is an amount under any of the credit facilities Viz., Term loans, overdraft, cash credit Accounts, bills purchased and discounted and other accounts in respect of which interest/installment of principle is an arrears for two quarters during the accounting year. NPAs are always a serious case of concern to the banks.

The recovery management received a major fillip with the enactment of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 enabling banks to realize their dues without intervention of courts and tribunals. The Supreme Court in its judgment dated April 8, 2004, while upholding the constitutional validity of the Act, struck down section 17 (2) of the Act as unconstitutional and contrary to Article 14 of the Constitution of India. The Government amended the relevant provisions of the Act to address the concerns expressed by the Supreme Court regarding a fair deal to borrowers through an ordinance dated November 11, 2004. It is expected that the momentum in the recovery of NPAs will be resumed with the amendments to the Act.

REASONS FOR MOUNTING NPAs IN BANKING SECTOR

1. Proceeding against the defaulters for recovery of our dues through legal action is the last resort among the various alternative when persuasive efforts fail to produce any concrete results legal action for recovery of loans has to be initiated against all defaulters. An important problem confronting the bank regarding the issue is to arrange the execution of the court decrees and disposal of the property in a public auction.
2. A major portion of bad debts occurred due to lending to the priority sector. At the pressure of politicians and bureaucrats. Many big borrowers defaulted only due to the recession in the economy. The absence of proper bankruptcy laws and the dilatory legal producers in scheduled

commercial bank in India had swollen from Rs.47,300 crores to Rs.70,904 crores during the five years from March 1997 to March 2002, as per the Reserve banks annual report on trend and progress of banks in India.

3. A major portion of bank lending is to industries and trade; this segment accounted for over 53 percent of gross bank credit excluding loans to these borrowers bankers have to relearn a lot. Till the early 1960s bankers lent only to traditional companies owned by respected business group and relied primary on the credentials of the group. The emergence of small-scale industries and the gradual opening up the economy changed the scenario with many news entrepreneurs on the scene and bankers had to learn newer of assessment and appraisal.
4. An expert committee under the chairmanship of Prakash Tandon was formed in 1974 to rewrite the policies and producers of lending to industries by banks. All banks under the direction of RBI freed banks from the shackles of the norms, but banks are yet to get out of their reliance norms and arithmetic formula. Appraisal of credit needs of industrial units and business concerns cannot be put in to relearn tricks of the trade.
5. Another factor that makes contribute to the low level of expertise in many big public sector banks is the constant rotation of duties among officers and the apparent lack of training in lending principle for the loan officers. If the public sector banks have to stand in the fierce financial market they have to create and nurture good cadre of officers in various disciplines.
6. It is a fact that banks extend a large number of loans to the priority sector at the behest of politicians. The RBI had been specifically commenting on the NPA in priority sector lending, in its annual reports on trends in banking till the year 1998.
7. In the area of monitoring advances banks in India are yet to attain high level of professionalism especially while extending working capital loans to industries, both small and large. Proper monitoring would require follow up whether the borrower is servicing the loan (paying interest, repaying principal) as per the original terms.
8. Retail lending in the form of house loans and consumer durable advance seems to be the current craze among banks in India. Therefore, banks need to ensure that proper and tailor made follow up procedures are strictly observed for different forms of lending.
9. Another reason is the loans to public sector enterprises (PSE) owned by Central and State Government. Whenever a PSE is in final trouble, the concerned government, Central or State freely give it guarantee for the advance given by the banks to the PSE. But when the time comes for paying up the guaranteeing government rarely if ever, pays up the amount of demand.
10. Lack of proper laws enabling banks to sell the security charged to them has been one cause for the NPA figure persisting at a fairly high level. The recent enactment of the securities legislation enabling banks to sell the security at short notice, without even getting the Court's permission has considerably strengthened the hands of banks. Although the new law vests almost absolute power in the hands of banks having security, these issues will become clearer only with the passage of time.
11. For a long time the country was turned to a policy of re-activating or 'rehabilitating' every unit under financial trouble. Thus a separate judicial body called the Board for Industrial and Financial Resonance (BIFR) was set up in the 1980s to consider cases of sick unit to see if they can be rehabilitated. The banks were the main sufferers as

they could not sell their security when required. The BIFR is being abolished and the new security law supersedes (BIFR). It is reported that CRISIL the rating agency had estimated that the new law would enable banks to reduce their gross NPAs. The agency States that over 36.4 percent of the bad loans would be outside the ambit of the new Act.

However it is understood the main reason for mounting NPAs in the sector are:

- Diversion of funds by promoters
- Gestation period in starting on enterprises/venture and
- Time as well as cost over runs.

OBJECTIVES OF THE STUDY

1. To examine the trend of NPAs in SBI, Narashima Naicken Palayam Branch from 2001-2006.
2. To study sectoral composition of NPAs.
3. To ascertain the causes of NPAs in Narashima Naicken Palayam Branch and
4. To suggest suitable measures to minimize the level of NPAs in SBI branch.

REVIEW OF LITERATURE

A study was conducted by **Anantharam Iyer**, "bank supervision and the management of non performance advances" revealed that the management of NPAs involves three stages (i) regular monitoring of the performance of cash loan assets and its periodic review (ii) early identification of problem asset for the success of remedial action and (iii) effective follow up for recovery. The study also points out that an important aspect of management of NPAs is accountability, which is an essentiality for purpose of instituting a sense of responsibility in managers.

Bhattacharya "has carried on study on Management of Non Performing Advances in Banks", it reveals three important aspects.

1. Scientific techniques in management of NPAs
2. Causes of an account turning into an NPAs and
3. General contributing factor for accounts turning into NPAs.

He has suggested sound risk assessment rating system for the prevention of NPAs by banks. Sound risk agreement system involves a detailed scrutiny of the project to judge its continued viability looking to the conditions of the economy, markets and industry as well as the strengthen and weakness of the borrower and promoter.

George Kutty has studied "NPA in Agricultural and d Rural Development Bank "it reveals the prudential norms as applicable to ARDBS discuss the structure of NPAs in ARDBS and suggest strategies for reducing NPA in ARDBS. He suggested that the management has to take drastic steps for reducing NPAs and to make recovery process more effective. Recovery of loans is affected by poor commitment of top management, shortage of trained staff; bureaucratic management styles political interference and other external factors. NPAs can be reduced only through effective recovery of loans. For this a recovery cell is to be organized in every bank. Services of expected and dedicated field staff are to be utilized in order to check diversion of loans and motivate the borrower to repay loan promptly.

METHODOLOGY

The NPA are classified in two, Gross NPA and Net NPA. Gross NPA comprises of Priority and Non-Priority sectors NPAs. Net NPA is derived from Gross NPA by excluding (i) balance in interest suspense account i.e. interest due but not received, (ii) DICGC / ECGC claim received and kept in suspense account pending adjustment (for final settlement), (iii) part payment received and kept in suspense account, and (iv) total provision held. Net NPA is the concept which is internationally recognized as relevant.

This study determines the Growth rate of Gross and Net NPA to analyze the trend percentage used as a primary tool for analysis. The NPAs of Bank has been appropriately grouped into different sectors as Priority and Non-Priority Sector. Priority sector comprises of Agriculture, SSI and SBF. Non-Priority sector comprises of personal Banking, Miscellaneous and commerce and industry. The Priority sectors and Non-Priority Sectors NPAs are classified into, Standard Assets, Sub-Standard Assets Doubtful Assets and Loss Assets. Accordingly Average, Co-efficient of variation was calculated to interpret the Sectoral Composition of NPAs. To determine the factors associated with NPA both Priority and Non-Priority Sectors has been selected and correlation Analysis used as a primary tool.

To determine the relationship between various parameters such as NPA and Agriculture, NPA and SSI, NPA and SBF, NPA and Commerce & Industry, NPA and Personal Banking, NPA and Miscellaneous correlation was applied. In the same way, to determine the cause and effect relationship, Multiple Regression was adopted. The secondary data was used for the study. The study covers a period of Five Financial Years i.e. from 2001-2002 to 2005-2006.

LIMITATIONS OF THE STUDY

1. This study is based purely on the secondary data. As such it is subjected to its own limitation.
2. This study is confined only to Narasimha Naicken Palayam Branch and as such findings cannot be generalized and
3. The study is restricted only to the period 2001-2002 to 2005-2006.

ANALYSIS AND DISCUSSION

This study has been categorized in determinants of NPA.

DETERMINANTS OF NPA

TABLE 1
FACTORS ASSOCIATED WITH NPA-CORRELATION ANALYSIS

FACTORS	R	R ₂
AGRI	-0.932943585	0.870383732
SSI	-0.176491691	0.031149317
SBF	0.982498139	0.965302594
COMM	0.87124343	0.759065115
PERS	0.96440831	0.930083388
MISC	0.957777473	0.917337687

In order to determine the factors associated with NPA, correlation analysis has been used. To test the significance of the correlation coefficient 'r' values have been computed. The table shows the results of correlation analysis.

AGRICULTURAL ADVANCES, SSI ADVANCES AND NPA

As could be seen from the table, the agricultural advances and SSI advances and NPA are not significantly associated with each other. The correlation coefficient has a negative sign indicating that, the increase of agricultural advances and SSI NPAs is followed by a decrease in the level of NPA and decrease in the agricultural advances and SSI NPA is followed by an increase in the level of NPAs.

SMALL BUSINESS FUNCTIONS (SBF) AND NPA

As could be seen from the table, the SBF advances and NPA are significantly associated with each other. The correlation coefficient has a positive sign indicating that with the increase of SBF advances, the level of NPA will increase. The value of coefficient determined amounted to 0.98 showing that there is 98 percent variation in NPA due to SBF advances. Further the factors like, C & I advances, personal advances, miscellaneous advances are not significantly associated with NPA.

Regression Analysis is the measure of joint effect of any number of independent variables upon a dependant variable.

TABLE 2
MULTIPLE REGRESSION ANALYSIS

CO-EFFICIENT				
FACTORS		Beta	t	Sign @ 5% level
CONSTANT	-1.69406	-	-	-
AGRI	.142	0.981	8.729	0.03
SSI	-	0.57	0.267	0.815
SBF	-	0.368	1.904	0.197
COMM	-	-0.240	-0.571	0.626
PERL	-	0.358	0.957	0.440
MISC	-	0.243	0.713	0.550

The table describes the relationship between the variables. Net NPA is the dependant variables here and the independent variables are:

- * Agri - Agriculture
- * SSI - Small Scale Industries
- * SBF - Small Business Functions
- * Comm – Commerce & Industry
- * Pers – Personal Banking
- * Misc - Miscellaneous

The main aim of formulating this multiple regression Model is to find out whether the Sectoral Composition is Significant and its relationship with Net NPA of the bank. The equation has been tested for goodness of fit using ANOVA and found fit at 5% level of significance. The analysis clearly shows that Commerce & Industry is negatively correlated, while Agri, SSI, SBF, Perl and Misc are positively related to Net NPA. Among the advances a Commerce & Industry Advances should be scrutinized and effect measured must be taken to reduce C and I NPAs.

SUMMARY OF FINDINGS

1. The correlation analysis indicates that the agri advances and SSI advances does not significantly associate with NPA. Hence correlation co-efficient shows a result in negative sign between agri advances and SSI advances. It can be inferred that increase in Agri advances, SSI advances is followed by a decrease in Net NPA and decrease in agri advances and SSI NPA is followed by an increase in level of NET NPAs, whereas the other advances significantly correlates with Net NPA, which indicates increase in advances will also increase the level of Net NPA.
2. The regression analysis clearly shows that C & I is negatively correlated while Agri, SSI, SBF, PERS, Misc are positively correlated with Net NPA.

SUGGESTIONS

The soft measures taken by the RBI are not sufficient to reduce the NPAs in banking sector. The following suggestions will enable the banks to reduce their NPAs. If implemented by the government of India, RBI and commercial banks concertedly. The properties of the wilful defaulters must be confiscated or attached in order to realize the dues to the banks.

1. Suitable amendments to the existing laws must be made to enable the bankers to initiate legal proceedings against the wilful defaulters e.g. Indian Penal Code, Criminal Procedure Code, Civil Procedure Code, Indian Evidence Act, Hindu Laws, Constitution of India, etc, be amended with a view to impose heavy penalty and /or punishment on defaulters.
2. A list of big defaulters should be prepared separately and the banks must give due publicity to them in print and electronic media along with their photographs, and the same can be sent to all police stations.
3. The Politicians-cum-bank defaulters must be imposed at least 10 times higher penalty, fine and imprisonment than ordinary defaulters. This will enhance the creditability of

banking system as well as the ethical values in the society. For this, the existing laws in the society must be suitably amended.

4. Many people including defaulters are transferring their assets and properties (but not liabilities) in the name of their female family members preferably spouses and daughters. Hence the concept of 'streedhan' must be reviewed and suitable amendments must be made to Hindu Laws to enable the banks to recover the dues from the defaulters.
5. The bank defaulters should be kept at an arms length in entering the politics at various levels including for bidding them in participating the elections (which include, panchayat, assembly, parliament, other local bodies, etc.). Those who are already in the politics must be treated like tax evaders and the banks must initiate legal proceedings—both civil and criminal—against them.
6. In case of institutional defaulters (like firms, companies, trust, societies etc.), all the member of their respective Boards must be booked under various civil as well as criminal laws of the country. They must be imposed at least 10 times higher penalty, fines, and imprisonment than ordinary defaulters. Their properties / assets must be attached or confiscated to realize the bank dues.
7. Fast-track courts must be established to nab the corporate criminals especially institutional defaulters in the criminal courts.

CONCLUSION

To conclude with, till recent past, corporate borrowers even after defaulting continuously never had any real fear of bank taking any action to recover their dues despite the fact that their entire assets were hypothecated to the banks. This is because there was no legal Act framed to safeguard the real interest of banks. The introduction of Securitization of Act, 2002 banks can send notices to their defaulters to repay their dues else make defaulters face hard and tough actions under the abovementioned Act. This enables banks to get rid of sticky loans there by improving their bottom line. The Act has facilitated the investors to deploy their funds in the NPAs Portfolios of bank and financial institutions, the Asset Reconstruction Companies (ARCs) were formed as independent body corporate to expedite the process of resolving the bad loans portfolio. This has warranted the need to create some kind of standard to make the process transparent and consistent. Banks were also able to contain the growth of Gross and Net Non-Performing Assets both in absolute terms as also in percent of net advances. Recently, our Finance Minister said in the inauguration of a public sector Bank that the Net NPA level now was 1.3 percent. Efforts were taken to bring it to one percent in one year. He expressed confidence that the Public sector banks will be able to bring down the Net Non-Performing Assets (NPA) to below 0.5 percent in the future years.

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